

**SAN MARCOS UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO
SAN MARCOS, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2009

**Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020**

Introductory Section

San Marcos Unified School District
Audit Report
For The Year Ended June 30, 2009

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Financial Section

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report on Financial Statements

Board of Trustees
San Marcos Unified School District
San Marcos, California

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Marcos Unified School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of San Marcos Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of San Marcos Unified School District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2009, on our consideration of San Marcos Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the San Marcos Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wilkinson Halley King & Co., LLP

El Cajon, California
October 29, 2009

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

This section of the San Marcos Unified School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2009.

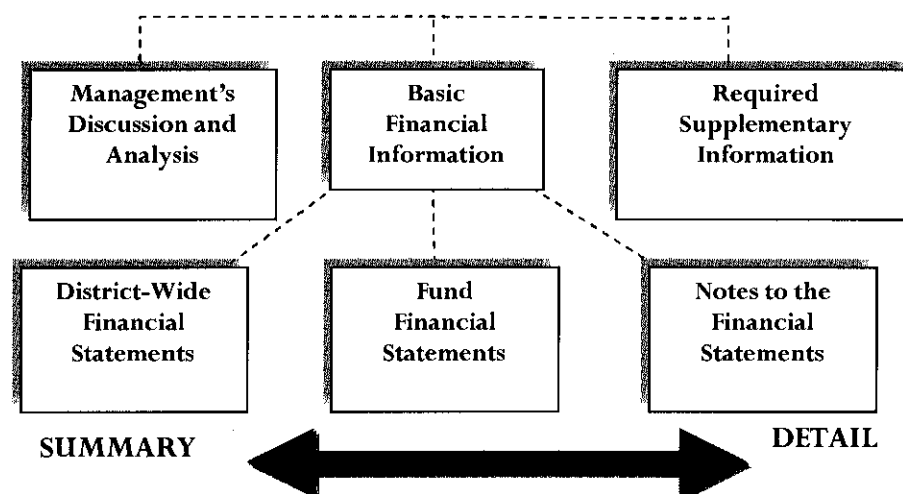
FINANCIAL HIGHLIGHTS

- Total assets including all funding sources at year's end equals \$375,844,393. This includes valuations of buildings, land and equipment. Net assets are valued at \$221,390,106 (See Exhibit A-1).
- General Fund revenues exceeded expenditures by \$1,428,193 in 2008-09, increasing the ending balance to \$24,977,703.
- The District continued to maintain the required reserves of \$4.2 million designated for economic uncertainties at year-end. This represents 3% general fund total expenditure budget, as required by the State. In addition, the unappropriated fund balance decreased to \$8.6 million. These funds will help with the projected budget deficit in 2009-10 and in the future years.
- The total ending balance is \$24,977,703, which is made up of the reserves mentioned above and other restricted reserve balances.
- The District expends about 94% of unrestricted funds on personnel. In addition, 3% of the expenditure adopted budget is budgeted for maintenance.
- Construction of Joli Anne Leichtag started in the spring of 2007 and was completed in August 2008. SEMS, a twelve classroom-two story building, was under construction with an opening date of September 2009. The total reconstruction of San Marcos Elementary will begin in July 2009 with a completion date of September 2010.
- Student enrollment grew by 515 students or 3%. The trend will continue into 2009-10 with an estimated increase of 350 students.
- No mandate cost reimbursements were received for claims to the State in 2008-09. The State tab to K-12 School Districts is growing. No funds are budgeted until received.
- The District received \$5.9 million in Federal Stimulus Funds in 08-09. Additional funds of 4.6 million are expected in 09-10 for Special Education and Title I purposes. These funds are considered non-reoccurring.
- The District received major state revenue reductions in 08-09 and has budgeted for additional reductions in 09-10.

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of San Marcos Unified School District's Annual Financial Report



SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses & Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the San Marcos Unified School District includes two components:

- *Management Discussion and Analysis* providing a narrative introduction and analysis of the financial statements for the current and prior years.
- *District-Wide Financial Statements* providing both short-term and long-term information about the District's overall financial status.

These components augment the *Fund Financial Statements* that focuses on individual aspects of District operations.

District-Wide Financial Statements

The new district-wide statements report information about the District as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes all District assets and liabilities, such as land, buildings and long-term debt. All current year revenues and expenses are accounted for in the statements, regardless of when cash is received or paid (full accrual).

The district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one measure of the District's financial health or position. Over time, increases or decreases in net assets are an indicator of whether the District's financial position is improving or deteriorating.

District-wide financial statements distinguish between *governmental activities* and *business-type activities*. Since San Marcos Unified School District has no business-type activities, all district operations are reported within the category of governmental activities.

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Fund Financial Statements

The fund financial statements provide more detailed information about the component funds that jointly comprise the District budget. Funds are accounting devices used to track specific sources of funding and spending for particular programs. Some funds are required by state law. Others are established to control and manage money for particular purposes (e.g., repaying long-term debt), or to show that certain revenues are properly accounted for and represented.

The governmental fund financial statements tell how District operations were financed, as well as what remains for future spending. They provide a detailed view of the *short-term* financial position of the district, without consideration of long-term assets and liabilities.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Table 1 shows that District assets totaled \$375,844,393 as of June 30, 2009. Cash represents the second largest component of district assets at \$77,939,628. Facilities represent the largest component, with land and buildings historically valued at \$304,844,784, plus an additional \$6,788,764 for facilities under construction (work in progress). Equipment is valued at \$25,384,132. Accumulated depreciation on assets equals (\$58,506,664). It should be noted that all capital assets are valued at *historical cost less depreciation, not market value*. The current market value for land and buildings owned by the district is considerably higher. This is especially true for the actual (insured) replacement value of buildings owned by the District. It should be noted that the value of building and land was estimated by an inventory company. The actual cost data dating back to 1949 was not available. Depreciation schedules were used with the actual dates of ownership and occupancy of school and district facilities. Liabilities total \$154,454,287 as of June 30, 2009.

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

<p>Community Facilities Districts bonded debt constitutes the majority of debt. The G.O. Bond of \$23 million was issued in 1996 for modernization. The District sold a COP issue to build the new Administration Center. It is funded from RDA revenues. The bonded debt equals other long-term liabilities.</p> <p>Overall, net assets of the San Marcos Unified School District were determined to be \$221,390,106 on June 30, 2009.</p>	Table 1 – Net Assets			
	Assets	June	June 30, 2008	June 30, 2009
	Current Assets:			
	Cash		\$ 83,035,345	\$ 77,939,628
	Other		14,443,775	19,393,749
	Capital Assets:			
	Land		57,919,623	62,945,144
	Improvement of Sites		22,175,012	23,020,771
	Buildings		186,960,725	218,878,869
	Equipment		24,603,166	25,384,132
	Work in Progress		19,619,436	6,788,764
	Less Accumulated Depreciation		(50,567,817)	(58,506,664)
	Total		\$358,189,265	\$375,844,393
	Assets			
	Liabilities			
	Current Liabilities		\$ 7,116,253	\$ 8,735,005
Long-Term Liabilities		87,900,076	145,719,282	
Total		95,016,329	154,454,287	
Liabilities				
Net Assets		\$263,172,936	\$221,390,106	

Table 2 – Change in Net Assets			Buildings and equipment are fixed assets, however, and will be depreciated over their useful life. Operational assets have increased through savings due to increased enrollment and additional state funding. The District has only deficit spent in one of the last seven years. The SEMS addition appears as work in process in 2008-09.
	2007-08	2008-09	
Beginning Net Assets	\$ 244,582,510*	\$ 208,974,409*	
Ending Net Assets	263,172,936	221,390,106	
Change in Net Assets	\$ 18,590,426	\$ 12,415,697	

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Governmental Activities

Table 3 (on the following page) shows that expenses related to educating and caring for children account for 82.5% of total District expenditures. Facilities related costs account for 13.85%, while purely administrative costs account for less than 3.65% of total expense.

Overall, the District expended \$134,820,460 in 2008-09 in the General Fund, whereas revenues totaled \$136,272,800. Deficit spending did not occur in this year due to unspent categorical grants and additional enrollment growth. In 2008-09, general fund expenditures for employee salaries and benefits were \$117,778,159 or 87% of total expense. The general cost of living salary increase was 0%. Salary increases were based on a negotiated formula, yet health costs rose on average 8.0%. The State implemented revenue reductions for all Districts at mid-year and into future years.

The cost of all governmental activities this year was \$159,706,363. Users of District programs paid some of this cost, primarily from cafeteria food sales, before and after school childcare programs, and construction projects. These expenses include all funds such as general operations, food services and all construction funds.

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Table 3 – Governmental Activities

	2007-08	2008-09
Expenditures		
Instruction	\$ 92,176,147	\$ 96,338,164
Instruction – Related Services	14,827,709	15,032,534
Pupil Support Services	15,696,226	15,141,385
Maintenance and Operations	13,898,083	14,724,546
General Administration	6,423,376	5,835,662
Interest on Long-Term Debt	4,143,226	7,141,153
Miscellaneous	5,155,114	5,492,921
Total Expenditures	\$152,319,881	\$159,706,365
Revenues		
Program Revenues:		
Charges for Services	\$ 4,894,441	\$ 4,586,429
Grants and Contributions	38,175,144	32,111,183
General Revenues:		
Taxes Levied for General Purposes	33,004,697	33,080,533
Taxes Levied for Debt Services	16,643,004	26,196,356
State Revenue Limit Aid	70,142,852	68,666,936
Interest and Investment Earnings	3,635,447	2,101,999
Miscellaneous	4,414,722	5,378,626
Total Revenues	\$170,910,307	\$172,122,062
Difference	\$ 18,590,426	\$ 12,415,697

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

FINANCIAL ANALYSIS OF DISTRICT FUNDS

District accounts are organized into various funds, each of which is considered a separate accounting identity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Governmental resources allocated to individual funds are recorded for the purpose of specific activities in accordance with laws, regulations and other requirements. The General Fund serves as the general operating fund for the district. It is used to account for all financial resources of the District except those required to be accounted for in a Special Revenue Fund, Capital Project Fund, Debt Service Fund, Proprietary Fund, or Fiduciary Fund.

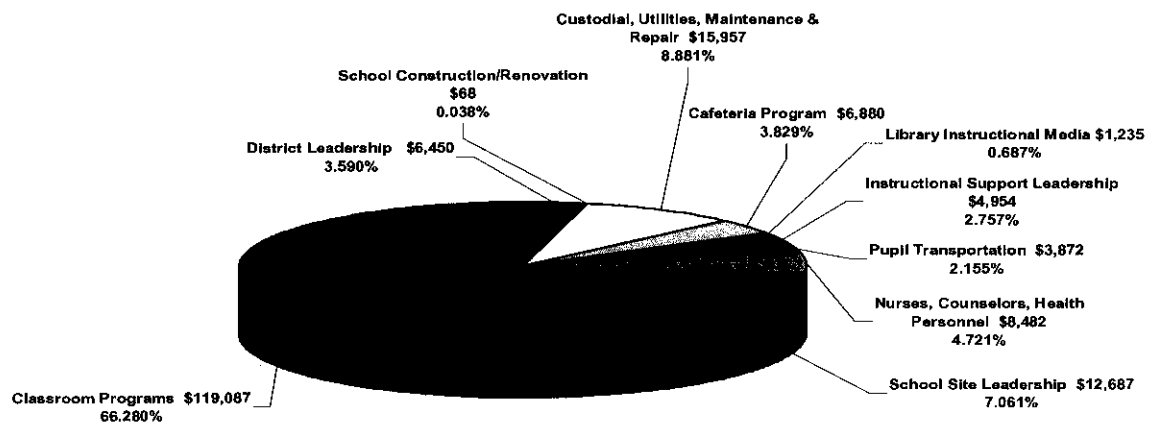
General Fund

General Fund revenues totaled nearly \$136.3 million for 2008-09, an increase of 2.5% from the prior year. General Fund expenditures plus transfers totaled \$134.9 million, a decrease of .6%. Employee salaries and benefits jointly comprise both the largest share of expenditures at 87.3% and also the most rapidly growing component. Unexpended grant funds will be re-budgeted in 2009-10 for expenditure.

The \$25 million ending balance at June 30, 2009, included \$4.2 million reserves designated for economic uncertainty. The reserves plus fund balance are over four times the level of reserves required for California school districts of this size.

2008-09

How is \$179,672 generated by typical classroom utilized?



SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Special Revenue Funds

- The *Adult Education Fund* is used to account separately for state and local revenues for adult education programs. The District operates a small adult education program with a total budget of about \$67,500.
- The *Deferred Maintenance Fund* is used to account separately for state apportionments and District contributions for deferred maintenance purposes. The district received \$539,278 in state funding to support deferred maintenance activities for school facilities. Several major heating/ventilation, paving and carpet projects are planned for summer 2009. The District will carry a reserve of \$800,000.
- The *Cafeteria Fund* is used to account separately for federal, state and local resources to operate the Child Nutrition program. The program continued to operate as self-supporting by increasing ala carte food sales and reimbursement revenues to offset rising personnel costs. The annual resources are about \$6.1 million. The largest revenue sources are federal funds, local sales and federal commodities (free food).

Capital Projects Funds

- The *Capital Facilities Fund* is used to account for resources received from developer impact fees. Local construction activity generated \$.9 million in fee revenue this year, along with a beginning balance of \$40 million that is earmarked for facilities to accommodate enrollment growth. About \$13.5 million was expended to provide additional school classrooms and facilities. In addition, the RDA fund had resources of \$19 million. These funds were used for completion of the San Elijo Middle School construction and Joli Ann Leichtag. Two rooms used for Kindergarten in San Elijo Middle School were converted to science classrooms in the summer of 2006. The balance of funds will be used for San Marcos Elementary School construction projects.
- The *County School Facilities Fund* was established to receive apportionments from the State School Facilities Fund for new facility construction and modernization projects. Funds were received and expended for Joli Ann Leichtag Elementary. The District is expecting up to \$14 million from the State for approved projects. The State must sell Bonds to complete the apportionment.
- The *Special Reserve Fund for Capital Outlay Projects* balance of \$0.4 million was used for capital outlay (buses) needs, a small balance remains for vehicle needs.

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

Debt Service Funds

- The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for the repayment of District general obligation bonds. This fund is maintained by the San Diego County Auditor and Controller's Office.

Proprietary Funds

- The *Self-Insurance Fund* is used to separate monies associated with the self-insurance activities and payment of health insurance costs of the District. The District maintains a reserve of \$1.3 million.

Fiduciary Funds

- *Student Body Funds* are used to account for the activities of student groups. The district serves as fiscal agent for these student funds. All expenditures must be approved by student clubs and officers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2008-09, the District invested \$17.7 million in capital assets, including school land and buildings, bus replacement, cafeteria equipment and computer networking. The bulk was for facility construction and modernization funded from bond proceeds.

Long-Term Debt

All major long-term debt is financed through special tax assessments on homes within the district. No liability on the general fund exists for delinquency in taxes. The General Fund is liable for the debt (approximately \$14 million) if the flow of Redevelopment Agency taxes to the District ceases for any reason on bonds sold in 2003-04 and 2005-06. This event is not expected to occur.

SAN MARCOS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

The San Marcos Unified School District remains in a stronger financial position than many California school districts. General Fund reserves of \$25 million provide a buffer against economic uncertainty. Mello-Roos taxes and construction bonds provide resources to address facility needs and to match state bond funds requested. Enrollment growth continues to generate added operating revenue. Still, several factors are cause for caution.

The escalating costs of special education requirements are continuing to exceed increases in revenue. All public school systems in California are primarily funded from State budget resources. The projected condition of the state economy and budget is of great concern. The district has been conservative in developing the 2009-10 budgets to stay within acceptable budget conditions. The State of California's financial recession is causing considerable hardship to all school districts and government agencies.

GASB 45 requires districts to highlight the unfunded liability associated with the retiree health benefits plan starting in 2008-09. At this time, the District will not be required to fund this debt over a 30 year period. The actuarial study was updated and presented to the Board for review in 2008-09. Negotiations in 2007-08 have reduced the projected long-term debt over the next 70 years. Staff is researching the possibility of funding this debt in 2010. Presently, the District is on a pay-as-you-go program.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (760) 752-1212.

Basic Financial Statements

SAN MARCOS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
ASSETS:	
Cash in County Treasury	\$ 55,244,501
Cash in Revolving Fund	30,000
Cash with Fiscal Agent	22,665,127
Investments	431,884
Accounts Receivable	17,918,073
Stores Inventories	285,302
Prepaid Expenses	758,490
Capital Assets:	
Land	62,945,144
Improvements	23,020,771
Buildings	218,878,869
Equipment	25,384,132
Work in Progress	6,788,764
Less Accumulated Depreciation	(58,506,664)
Total Assets	<u>375,844,393</u>
LIABILITIES:	
Accounts Payable	7,240,135
Deferred Revenues	1,494,870
Long-term Liabilities:	
Due within one year	5,899,364
Due in more than one year	135,238,007
Accreted Interest	4,581,911
Total Liabilities	<u>154,454,287</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	135,784,584
Restricted For:	
Capital Projects	48,493,641
Debt Service	1,804,134
Educational Programs	5,239,007
Unrestricted	30,068,740
Total Net Assets	<u>\$ 221,390,106</u>

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Government Activities:					
Instruction	\$ 96,338,164	\$ 919,883	\$ 21,310,480	\$ 161,034	\$ (73,946,767)
Instruction-Related Services	15,032,534	147,439	3,262,896	-	(11,622,199)
Pupil Services	15,141,385	2,013,086	5,716,987	-	(7,411,312)
General Administration	5,835,662	127,204	405,787	-	(5,302,671)
Plant Services	14,724,546	105,494	699,379	-	(13,919,673)
Ancillary Services	1,215,719	-	25,111	-	(1,190,608)
Community Services	4,094,610	1,259,381	474,336	-	(2,360,893)
Enterprise Activities	40,097	13,942	25,440	-	(715)
Interest on Long-term Debt	7,141,153	-	-	-	(7,141,153)
Other Outgo	142,495	-	29,733	-	(112,762)
Total Governmental Activities	<u>159,706,365</u>	<u>4,586,429</u>	<u>31,950,149</u>	<u>161,034</u>	<u>(123,008,753)</u>
Total Primary Government	<u>\$ 159,706,365</u>	<u>\$ 4,586,429</u>	<u>\$ 31,950,149</u>	<u>\$ 161,034</u>	<u>(123,008,753)</u>
General Revenues:					
Taxes and Subventions					59,276,889
Federal and State Revenues, not restricted to specific purposes					68,666,936
Interest and Investment Earnings					2,101,999
Interagency Revenues					62,915
Miscellaneous					5,315,711
Total General Revenues					<u>135,424,450</u>
Change in Net Assets					<u>12,415,697</u>
Net Assets - Beginning					261,810,038
Adjustment to Beginning Net Assets (Note M)					(52,835,629)
Net Assets - Ending					<u>\$ 221,390,106</u>

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	General Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 13,511,813	\$ 30,728,233	\$ 10,785,493	\$ 55,025,539
Cash in Revolving Fund	20,000	-	10,000	30,000
Cash with a Fiscal Agent/Trustee	-	17,241,492	5,423,635	22,665,127
Investments	-	-	431,884	431,884
Accounts Receivable	15,701,622	146,541	732,869	16,581,032
Due from Other Funds	281,362	140	2,714	284,216
Stores Inventories	98,721	-	186,581	285,302
Total Assets	<u>\$ 29,613,518</u>	<u>\$ 48,116,406</u>	<u>\$ 17,573,176</u>	<u>\$ 95,303,100</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 3,181,413	\$ 1,368,551	\$ 653,091	\$ 5,203,055
Due to Other Funds	2,854	6,778	224,584	234,216
Deferred Revenue	1,451,548	-	43,835	1,495,383
Total Liabilities	<u>4,635,815</u>	<u>1,375,329</u>	<u>921,510</u>	<u>6,932,654</u>
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	20,000	-	10,000	30,000
Reserve for Stores Inventories	98,721	-	186,581	285,302
Reserve for Legally Restricted Balance	7,438,005	-	57,671	7,495,676
Designated Fund Balances:				
Designated for Economic Uncertainties	4,200,000	-	1,661,312	5,861,312
Other Designated	4,593,393	46,741,077	12,931,967	64,266,437
Unreserved	8,627,584	-	-	8,627,584
Unreserved, reported in nonmajor:				
Debt Service Funds	-	-	1,804,135	1,804,135
Total Fund Balance	<u>24,977,703</u>	<u>46,741,077</u>	<u>16,651,666</u>	<u>88,370,446</u>
Total Liabilities and Fund Balances	<u>\$ 29,613,518</u>	<u>\$ 48,116,406</u>	<u>\$ 17,573,176</u>	<u>\$ 95,303,100</u>

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balances - governmental funds balance sheet \$ 88,370,446

Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities, at historical cost:	337,017,680	
Accumulated depreciation:	(58,506,664)	
Net:		278,511,016

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in the prepaid expense on the statement of net assets are: 758,490

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was: (1,898,219)

Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available", meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements, is: 512

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	19,454,930	
Net OPEB obligation	2,319,620	
Compensated absences payable	673,230	
Lease revenue bonds	5,190,000	
Other general long-term debt	108,775,000	
Capital leases payable	9,306,502	
Total:		(145,719,282)

Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 1,367,143

Net assets of governmental activities - statement of net assets \$ 221,390,106

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 63,229,184	\$ -	\$ -	\$ 63,229,184
Local Sources	33,191,724	-	-	33,191,724
Federal Revenue	12,364,077	-	3,625,450	15,989,527
Other State Revenue	14,360,801	-	926,722	15,287,523
Other Local Revenue	13,127,014	20,184,004	11,127,743	44,438,761
Total Revenues	<u>136,272,800</u>	<u>20,184,004</u>	<u>15,679,915</u>	<u>172,136,719</u>
Expenditures:				
Instruction	88,888,444	-	59,958	88,948,402
Instruction - Related Services	14,522,425	-	6,753	14,529,178
Pupil Services	9,504,467	-	5,178,791	14,683,258
Ancillary Services	1,218,745	-	200	1,218,945
Community Services	4,026,588	-	22,016	4,048,604
Enterprise	1,440	-	35,753	37,193
General Administration	4,441,505	893,262	194,459	5,529,226
Plant Services	12,031,975	7,689,041	11,878,859	31,599,875
Other Outgo	91,278	-	-	91,278
Debt Service:				
Principal	73,574	1,917,922	3,000,000	4,991,496
Interest	20,019	3,002,268	2,978,572	6,000,859
Total Expenditures	<u>134,820,460</u>	<u>13,502,493</u>	<u>23,355,361</u>	<u>171,678,314</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,452,340</u>	<u>6,681,511</u>	<u>(7,675,446)</u>	<u>458,405</u>
Other Financing Sources (Uses):				
Transfers In	-	-	4,202,253	4,202,253
Transfers Out	(40,000)	-	(4,202,253)	(4,242,253)
Other Sources	15,853	-	-	15,853
Total Other Financing Sources (Uses)	<u>(24,147)</u>	<u>-</u>	<u>-</u>	<u>(24,147)</u>
Net Change in Fund Balance	1,428,193	6,681,511	(7,675,446)	434,258
Fund Balance, July 1	23,549,510	40,059,566	24,327,112	87,936,188
Fund Balance, June 30	<u>\$ 24,977,703</u>	<u>\$ 46,741,077</u>	<u>\$ 16,651,666</u>	<u>\$ 88,370,446</u>

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balances - total governmental funds \$ 434,258

Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	17,671,273	
Depreciation expense	(7,239,265)	
Net		10,432,008

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

4,991,496

Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent that they are "available", meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period, is:

512

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(883,747)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

(83,800)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when the employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between the OPEB costs and actual employer contributions was:

(2,319,620)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issuance premium or discount, were:

(15,853)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

(108,274)

Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was:

19,934

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or discount it is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

(51,217)

Change in net assets of governmental activities - statement of activities

\$ 12,415,697

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

JUNE 30, 2009

	Nonmajor Internal Service Fund	Self-Insurance Fund
ASSETS:		
Current Assets:		
Cash in County Treasury	\$ 218,963	
Accounts Receivable	1,337,041	
Total Current Assets	1,556,004	
Total Assets	\$ 1,556,004	
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 138,861	
Due to Other Funds	50,000	
Total Current Liabilities	188,861	
Total Liabilities	188,861	
NET ASSETS:		
Unrestricted Net Assets	1,367,143	
Total Net Assets	\$ 1,367,143	

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Nonmajor Internal Service Fund
	Self-Insurance Fund
Operating Revenues:	
Local Revenue	\$ 15,773,403
Total Revenues	<u>15,773,403</u>
Operating Expenses:	
Classified Salaries	37,705
Employee Benefits	20,504
Books and Supplies	43,857
Services and Other Operating Expenses	15,819,612
Total Expenses	<u>15,921,678</u>
Operating Income (Loss)	<u>(148,275)</u>
Income (Loss) before Contributions and Transfers	(148,275)
Interfund Transfers In	40,000
Change in Net Assets	<u>(108,275)</u>
Total Net Assets - Beginning	1,475,418
Total Net Assets - Ending	<u>\$ 1,367,143</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	Nonmajor Internal Service Fund
	Self-Insurance Fund
Cash Flows from Operating Activities:	
Cash Received from Customers and Primary Government	\$ 15,669,503
Cash Payments for Payroll and Other Operating Costs	(128,099)
Cash Payments for Insurance Expenses	(15,542,343)
Net Cash Provided (Used) by Operating Activities	(939)
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	26,851
Net Cash Provided (Used) for Investing Activities	26,851
Net Increase (Decrease) in Cash and Cash Equivalents	25,912
Cash and Cash Equivalents at Beginning of Year	193,051
Cash and Cash Equivalents at End of Year	\$ 218,963
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (108,275)
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(103,901)
Decrease (Increase) in Due From Other Funds	80,450
Increase (Decrease) in Accounts Payable	107,638
Increase (Decrease) in Due To Other Funds	50,000
Total Adjustments	134,187
Net Cash Provided (Used) by Operating Activities	\$ 25,912

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2009

	Agency Fund	Student Body Fund
ASSETS:		
Cash on Hand and in Banks	\$ 521,166	
Total Assets	\$ 521,166	
LIABILITIES:		
Due to Student Groups	\$ 521,166	
Total Liabilities	521,166	
NET ASSETS:		
Total Net Assets	\$ -	

The accompanying notes are an integral part of this statement.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

A. Summary of Significant Accounting Policies

San Marcos Unified School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has two component units, the San Marcos Community Facilities Districts and the San Marcos Schools Financing Authority.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Facilities Fund. This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environment Quality Act.

In addition, the District reports the following fund types:

Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds. These funds account for the acquisition and/or construction of all major governmental fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Internal Service Funds. These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Permanent Funds. These funds are used to account for permanent foundations that benefit an LEA. The District maintains one non-major permanent fund.

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50
Building Improvements	20-25
Vehicles	5-15
Office Equipment	5-15
Computer Equipment	5-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$55,244,501 as of June 30, 2009). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$55,244,501. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$521,166 as of June 30, 2009) and in the revolving fund (\$30,000) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments:

The District's investments at June 30, 2009 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Fimm Funds-Treasury	\$ 4,035,224
Blackrock T-Funds	4,090,888
Certificates of Deposit-Wells Fargo	516,491
GIC-San Marcos Redevelopment Agency	13,206,268
GIC-Federal Home Loan	816,256
Other Investments	431,884
Total Investments	\$ 23,097,011

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

5. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

D. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 61,679,418	\$ 1,265,726	\$ -	\$ 62,945,144
Work in progress	20,982,334	5,435,852	19,629,422	6,788,764
Total capital assets not being depreciated	82,661,752	6,701,578	19,629,422	69,733,908
Capital assets being depreciated:				
Buildings	190,173,999	28,704,870	-	218,878,869
Improvements	22,175,012	845,759	-	23,020,771
Equipment	24,634,109	1,068,422	318,399	25,384,132
Total capital assets being depreciated	236,983,120	30,619,051	318,399	267,283,772
Less accumulated depreciation for:				
Buildings	(31,110,113)	(4,338,091)	-	(35,448,204)
Improvements	(6,343,630)	(968,259)	-	(7,311,889)
Equipment	(14,132,055)	(1,932,915)	(318,399)	(15,746,571)
Total accumulated depreciation	(51,585,798)	(7,239,265)	(318,399)	(58,506,664)
Total capital assets being depreciated, net	185,397,322	23,379,786	-	208,777,108
Governmental activities capital assets, net	\$ 268,059,074	\$ 30,081,364	\$ 19,629,422	\$ 278,511,016

Depreciation was charged to functions as follows:

Instruction	\$ 6,110,019
Instruction-Related Services	209,702
Pupil Services	313,726
Ancillary Services	1,461
Community Services	1,147
General Administration	293,561
Plant Services	309,649
	<u>\$ 7,239,265</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2009, consisted of the following:

Due To Fund	Due From Fund	Amount
General Fund	Self Insurance Fund	\$ 50,000
General Fund	Cafeteria Fund	222,204
General Fund	Capital Facilities Fund	6,778
Capital Facilities Fund	General Fund	140
Cafeteria Fund	General Fund	2,714
General Fund	Adult Education Fund	2,380
	Total	<u>\$ 284,216</u>

All amounts due are scheduled to be repaid within one year.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2009, consisted of the following:

Transfers From	Transfers To	Amount
General Fund	Self Insurance Fund	\$ 40,000
Blended Component Fund	Blended Component Fund	4,202,253
	Total	<u>\$ 4,242,253</u>

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2009, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 16,128,019	\$ -	\$ 1,255,000	\$ 14,873,019	1,375,000
Capital leases	5,860,336	4,337,662	891,496	9,306,502	926,134
Lease revenue bonds	5,435,000	-	245,000	5,190,000	250,000
CFD & RDA bonds	55,785,000	55,590,000	2,600,000	108,775,000	2,675,000
Net OPEB obligation	-	4,653,692	2,334,072	2,319,620	-
Accreted interest	4,067,491	514,420	-	4,581,911	-
Compensated absences	589,430	83,800	-	673,230	673,230
Total governmental activities	<u>\$ 87,865,276</u>	<u>\$ 65,179,574</u>	<u>\$ 7,325,568</u>	<u>\$ 145,719,282</u>	<u>\$ 5,899,364</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

2. Debt Service Requirements

Debt service requirements on long-term debt, net of accreted interest and net OPEB obligation at June 30, 2009 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2010	\$ 5,899,364	\$ 5,869,860	\$ 11,769,224
2011	5,496,776	5,678,906	11,175,682
2012	5,809,044	5,451,890	11,260,934
2013	6,079,996	5,203,900	11,283,896
2014	6,354,439	4,961,364	11,315,803
2015-2019	24,699,051	28,588,921	53,287,972
2020-2024	21,717,787	21,673,430	43,391,217
2025-2029	22,137,494	12,518,282	34,655,776
2030-2034	21,558,800	6,881,922	28,440,722
2035-2039	15,850,000	2,501,922	18,351,922
2040-2044	3,215,000	72,337	3,287,337
Totals	\$ 138,817,751	\$ 99,402,734	\$ 238,220,485

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2009, as follows:

<u>Year Ending June 30:</u>	
2010	\$ 1,277,789
2011	1,277,789
2012	1,277,789
2013	1,230,126
2014	1,183,469
2015-2019	2,906,185
2020-2024	1,427,699
2025-2029	989,057
2030-2034	494,528
Total Minimum Rentals	12,064,431
Less Amount Representing Interest	(2,757,929)
Present Value of Net Minimum Lease Payments	\$ 9,306,502

H. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, The San Diego County Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2009 is as follows:

Total Assets	\$	5,161,970
Total Liabilities		2,397,072
Total Fund Balance		2,764,898
 Total Cash Receipts		 3,616,886
Total Cash Disbursements		3,703,543
Net Change in Fund Balance		(86,657)

I. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

PERS:

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-09 was 9.42% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2009, 2008 and 2007 were \$1,726,501, \$1,726,813 and \$1,547,508, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2009, 2008 and 2007 were \$5,352,120, \$5,297,052 and \$4,822,904, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$2,930,361.

J. Postemployment Benefits Other Than Pension Benefits

Plan Description

The San Marcos Unified School District (District) administers a single-employer healthcare plan (Plan). For classified employees including management hired prior to July 1, 2007, who retire at age 55 or older with at least ten consecutive years of District benefit eligible service and who are covered under District health benefits at retirement, are eligible to receive District-paid retiree medical benefits. Retiree medical benefits cease at age 65 except for employees hired prior to July 1, 1997 with at least twenty years of benefit eligible service at retirement. These employees are eligible to receive post-65 medical coverage including Medicare Part B reimbursement for the retiree only. Spouses of retirees also receive District-paid medical up to the spouse's attainment of age 65, if the retiree is also receiving medical benefits. Effective June 30, 2012, spouse coverage will cease when the retiree attains age 65. For eligible retirees who retire prior to July 1, 2007, the District contributes a portion of the retiree medical costs based on a sliding scale from 50% to 100% (50% for employees with at least ten years of benefit eligible service plus 5% per additional year of benefit eligible service up to 100%).

For eligible employees who retire on or after July 1, 2007, the District pays 100% of the cost for medical coverage up to an annual maximum of \$11,625 for pre-65 coverage and \$11,625 for post-65 coverage including the Medicare Part B reimbursement. Effective January 1, 2009, for eligible employees who retired prior to July 1, 2007, the District's contribution for pre-65 coverage will be limited to the composite rate in effect for the PacifiCare HMO or another reasonably equivalent plan designated by the District. Classified employees hired on or after July 1, 2007 receive no retiree health benefits.

For certificated employees including management hired prior to July 1, 1996 who retire at age 55 or older with at least ten consecutive years of District benefit eligible service and who are covered under District health benefits at retirement are eligible to receive District-paid retiree medical benefits for life. Certificated employees hired on or after July 1, 1996 who retire at age 55 or older with at least ten consecutive years of District benefit eligible service are eligible to receive District-paid retiree medical benefits to the retiree's attainment of age 65. Spouses of retirees also receive District-paid medical up to the spouse's attainment of age 65, if the retiree is also receiving benefits.

For eligible employees who retire on or after July 1, 2007, the District's contribution will be limited to an annual maximum of \$11,265 for pre-65 coverage and \$11,265 for post-65 coverage including the Medicare Part B Reimbursement. Effective January 1, 2009, for eligible employees who retired prior to July 1, 2007, the District's contribution for pre-65 coverage will be limited to the composite rate in effect for the PacifiCare HMO or another reasonably equivalent plan designated by the District. Certificated employees hired on or after July 1, 2007 receive no retiree health benefits.

Confidential employees receive the same District-paid benefits under the same provisions and eligibility requirements as classified employees. Membership of the plan consists of approximately 1,074 eligible active employees and 266 eligible retirees who are in receipt of health benefits.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

Contribution Information

The contribution requirements of Plan members and the District are established and amended by the District and the Teachers Association (CEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008-09, the District contributed \$2,334,072 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net obligation to the Plan:

Annual required contribution	\$ 4,653,692
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	-
Contribution made	2,334,072
Increase in net OPEB obligation	2,319,620
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 2,319,620

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 was as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$4,653,692	50%	\$2,319,620

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

In the July 1, 2008 actuarial valuation, the actuarial cost method used was the Entry Age Normal (EAN) cost method. The EAN cost method is a projected benefit cost method which means the "cost" is based on the projected benefit expected to be paid at retirement. The EAN normal cost equals the level annual amount of contribution from the employee's date of hire (entry date) to their retirement date that is sufficient to fund the projected benefit. For plans unrelated to pay, the normal cost is calculated to remain level as a percentage of pay. The EAN actuarial accrued liability equals the present value of all future benefits for retired and current employees and their beneficiaries less the portion expected to be funded by normal costs. All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the employer were included in the valuation.

Medical cost trend rates ranged from an initial rate of 9.0% reduced to a rate of 5.0% after eight years. The UAAL is being amortized at a level-percentage of payroll method with the remaining amortization period at July 1, 2009 of 29 years. The actuarial value of assets was not determined in this actuarial valuation; however, any assets of the plan to be determined will be on a market basis.

K. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

L. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides medical, dental and vision coverage to employees.

M. Adjustments to Beginning Net Assets

During the year ended June 30, 2009 the District discovered that \$55,590,000 of tax increment pass-through revenue refunding bonds issued by the San Marcos Public Facilities Authority and payable through the Redevelopment Agency of the City of San Marcos had not been recorded as long-term debt based on the assumption that the debt was reflected on the financial statements of the City's Redevelopment Agency. In addition, the District discovered misstatements in the recording of capitalized assets and corresponding depreciation which amounted to an adjustment of \$2,754,371. Based on these adjustments, the District has restated beginning net assets on the government-wide statement of activities. The adjustments are noted as follows:

Beginning Net Assets-Originally Stated	\$ 261,810,038
Revenue Bonds Understatement	(55,590,000)
Accumulated Depreciation Understatement	(5,612,539)
Capitalized Assets Understatement	<u>8,366,910</u>
Beginning Net Assets-As Restated	<u>\$ 208,974,409</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

N. Subsequent Events

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the state that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenue and the related receivable have been included in these financial statements.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

SAN MARCOS UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 65,290,000	\$ 63,229,184	\$ 63,229,184	\$ -
Local Sources	32,574,800	33,191,729	33,191,724	(5)
Federal Revenue	6,069,837	17,771,319	12,364,077	(5,407,242)
Other State Revenue	17,008,470	16,627,258	14,360,801	(2,266,457)
Other Local Revenue	13,940,223	13,583,684	13,127,014	(456,670)
Total Revenues	<u>134,883,330</u>	<u>144,403,174</u>	<u>136,272,800</u>	<u>(8,130,374)</u>
Expenditures:				
Instruction	90,876,166	92,395,221	88,888,444	3,506,777
Instruction - Related Services	13,671,379	15,362,064	14,522,425	839,639
Pupil Services	9,138,750	10,167,364	9,504,467	662,897
Ancillary Services	795,346	1,290,815	1,218,745	72,070
Community Services	3,823,068	4,318,982	4,026,588	292,394
Enterprise	-	1,442	1,440	2
General Administration	4,715,331	4,815,302	4,441,505	373,797
Plant Services	12,088,399	12,590,492	12,031,975	558,517
Other Outgo	736,531	131,281	91,278	40,003
Debt Service:				
Principal	73,574	73,574	73,574	-
Interest	20,019	20,019	20,019	-
Total Expenditures	<u>135,938,563</u>	<u>141,166,556</u>	<u>134,820,460</u>	<u>6,346,096</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,055,233)</u>	<u>3,236,618</u>	<u>1,452,340</u>	<u>(1,784,278)</u>
Other Financing Sources (Uses):				
Transfers Out	-	-	(40,000)	(40,000)
Other Sources	-	-	15,853	15,853
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(24,147)</u>	<u>(24,147)</u>
Net Change in Fund Balance	<u>(1,055,233)</u>	<u>3,236,618</u>	<u>1,428,193</u>	<u>(1,808,425)</u>
Fund Balance, July 1	<u>23,549,510</u>	<u>23,549,510</u>	<u>23,549,510</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 22,494,277</u>	<u>\$ 26,786,128</u>	<u>\$ 24,977,703</u>	<u>\$ (1,808,425)</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

SAN MARCOS UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/09	-	\$ 74,134,925	\$ 74,134,925	-	\$ 90,187,645	82.2%

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

SAN MARCOS UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2009

	Special Revenue Funds	Debt Service Funds
ASSETS:		
Cash in County Treasury	\$ 2,857,967	\$ 1,804,135
Cash in Revolving Fund	10,000	-
Cash with a Fiscal Agent/Trustee	-	-
Investments	431,884	-
Accounts Receivable	707,619	-
Due from Other Funds	2,714	-
Stores Inventories	186,581	-
Total Assets	<u>\$ 4,196,765</u>	<u>\$ 1,804,135</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 79,843	\$ -
Due to Other Funds	224,584	-
Deferred Revenue	43,835	-
Total Liabilities	<u>348,262</u>	<u>-</u>
Fund Balance:		
Reserved Fund Balances:		
Reserve for Revolving Cash	10,000	-
Reserve for Stores Inventories	186,581	-
Reserve for Legally Restricted Balance	57,671	-
Designated Fund Balances:		
Designated for Economic Uncertainties	1,661,312	-
Other Designated	1,932,939	-
Unreserved, reported in nonmajor:		
Debt Service Funds	-	1,804,135
Total Fund Balance	<u>3,848,503</u>	<u>1,804,135</u>
Total Liabilities and Fund Balances	<u>\$ 4,196,765</u>	<u>\$ 1,804,135</u>

Capital Projects Funds	Foundation Permanent Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
\$ 6,077,424	\$ 45,967	\$ 10,785,493
-	-	10,000
5,423,635	-	5,423,635
-	-	431,884
25,083	167	732,869
-	-	2,714
-	-	186,581
<u>\$ 11,526,142</u>	<u>\$ 46,134</u>	<u>\$ 17,573,176</u>
\$ 573,248	\$ -	\$ 653,091
-	-	224,584
-	-	43,835
<u>573,248</u>	<u>-</u>	<u>921,510</u>
-	-	10,000
-	-	186,581
-	-	57,671
-	-	1,661,312
10,952,894	46,134	12,931,967
-	-	1,804,135
<u>10,952,894</u>	<u>46,134</u>	<u>16,651,666</u>
<u>\$ 11,526,142</u>	<u>\$ 46,134</u>	<u>\$ 17,573,176</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Funds	Debt Service Funds
Revenues:		
Federal Revenue	\$ 3,625,450	\$ -
Other State Revenue	893,375	17,747
Other Local Revenue	2,679,900	1,820,223
Total Revenues	<u>7,198,725</u>	<u>1,837,970</u>
Expenditures:		
Instruction	59,958	-
Instruction - Related Services	6,753	-
Pupil Services	5,178,791	-
Ancillary Services	200	-
Community Services	22,016	-
Enterprise	35,753	-
General Administration	194,459	-
Plant Services	723,879	-
Debt Service:		
Principal	-	3,000,000
Interest	-	2,978,572
Total Expenditures	<u>6,221,809</u>	<u>5,978,572</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>976,916</u>	<u>(4,140,602)</u>
Other Financing Sources (Uses):		
Transfers In	-	4,202,253
Transfers Out	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>4,202,253</u>
Net Change in Fund Balance	976,916	61,651
Fund Balance, July 1	2,871,587	1,742,484
Fund Balance, June 30	<u>\$ 3,848,503</u>	<u>\$ 1,804,135</u>

Capital Projects Funds	Foundation Permanent Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
\$ -	\$ -	\$ 3,625,450
15,600	-	926,722
6,626,550	1,070	11,127,743
<u>6,642,150</u>	<u>1,070</u>	<u>15,679,915</u>
-	-	59,958
-	-	6,753
-	-	5,178,791
-	-	200
-	-	22,016
-	-	35,753
-	-	194,459
11,154,980	-	11,878,859
-	-	3,000,000
-	-	2,978,572
<u>11,154,980</u>	<u>-</u>	<u>23,355,361</u>
(4,512,830)	1,070	(7,675,446)
-	-	4,202,253
(4,202,253)	-	(4,202,253)
<u>(4,202,253)</u>	<u>-</u>	<u>-</u>
(8,715,083)	1,070	(7,675,446)
19,667,977	45,064	24,327,112
<u>\$ 10,952,894</u>	<u>\$ 46,134</u>	<u>\$ 16,651,666</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2009

	Adult Education Fund	Cafeteria Fund
ASSETS:		
Cash in County Treasury	\$ 58,504	\$ 1,952,114
Cash in Revolving Fund	-	10,000
Investments	-	-
Accounts Receivable	6,610	698,745
Due from Other Funds	-	2,714
Stores Inventories	-	186,581
Total Assets	<u>\$ 65,114</u>	<u>\$ 2,850,154</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 5,063	\$ 74,780
Due to Other Funds	2,380	222,204
Deferred Revenue	-	43,835
Total Liabilities	<u>7,443</u>	<u>340,819</u>
Fund Balance:		
Reserved Fund Balances:		
Reserve for Revolving Cash	-	10,000
Reserve for Stores Inventories	-	186,581
Reserve for Legally Restricted Balance	57,671	-
Designated Fund Balances:		
Designated for Economic Uncertainties	-	1,661,312
Other Designated	-	651,442
Total Fund Balance	<u>57,671</u>	<u>2,509,335</u>
Total Liabilities and Fund Balances	<u>\$ 65,114</u>	<u>\$ 2,850,154</u>

Deferred Maintenance Fund	Foundation Special Revenue Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 806,520	\$ 40,829	\$ 2,857,967
-	-	10,000
-	431,884	431,884
1,545	719	707,619
-	-	2,714
-	-	186,581
<u>\$ 808,065</u>	<u>\$ 473,432</u>	<u>\$ 4,196,765</u>
\$ -	\$ -	\$ 79,843
-	-	224,584
-	-	43,835
<u>-</u>	<u>-</u>	<u>348,262</u>
-	-	10,000
-	-	186,581
-	-	57,671
-	-	1,661,312
808,065	473,432	1,932,939
<u>808,065</u>	<u>473,432</u>	<u>3,848,503</u>
<u>\$ 808,065</u>	<u>\$ 473,432</u>	<u>\$ 4,196,765</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Adult Education Fund	Cafeteria Fund
Revenues:		
Federal Revenue	\$ -	\$ 3,625,450
Other State Revenue	77,077	277,020
Other Local Revenue	1,185	2,195,884
Total Revenues	<u>78,262</u>	<u>6,098,354</u>
Expenditures:		
Instruction	58,308	-
Instruction - Related Services	6,753	-
Pupil Services	-	5,178,791
Ancillary Services	-	-
Community Services	-	-
Enterprise	-	35,753
General Administration	2,349	192,110
Plant Services	-	131,052
Total Expenditures	<u>67,410</u>	<u>5,537,706</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,852</u>	<u>560,648</u>
Net Change in Fund Balance	10,852	560,648
Fund Balance, July 1	46,819	1,948,687
Fund Balance, June 30	<u>\$ 57,671</u>	<u>\$ 2,509,335</u>

Deferred Maintenance Fund	Foundation Special Revenue Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ -	\$ -	\$ 3,625,450
539,278	-	893,375
21,222	461,609	2,679,900
<u>560,500</u>	<u>461,609</u>	<u>7,198,725</u>
-	1,650	59,958
-	-	6,753
-	-	5,178,791
-	200	200
-	22,016	22,016
-	-	35,753
-	-	194,459
592,827	-	723,879
<u>592,827</u>	<u>23,866</u>	<u>6,221,809</u>
(32,327)	437,743	976,916
(32,327)	437,743	976,916
840,392	35,689	2,871,587
<u>\$ 808,065</u>	<u>\$ 473,432</u>	<u>\$ 3,848,503</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR DEBT SERVICE FUNDS

JUNE 30, 2009

	Bond Interest & Redemption	Total Nonmajor Debt Service Funds (See Exhibit C-1)
ASSETS:		
Cash in County Treasury	\$ 1,804,135	\$ 1,804,135
Total Assets	<u>\$ 1,804,135</u>	<u>\$ 1,804,135</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balance:		
Unreserved, reported in nonmajor:		
Debt Service Funds	\$ 1,804,135	\$ 1,804,135
Total Fund Balance	<u>1,804,135</u>	<u>1,804,135</u>
Total Liabilities and Fund Balances	<u>\$ 1,804,135</u>	<u>\$ 1,804,135</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	Bond Interest & Redemption	Blended Component Unit	Total Nonmajor Debt Service Funds (See Exhibit C-2)
Revenues:			
Other State Revenue	\$ 17,747	\$ -	\$ 17,747
Other Local Revenue	1,820,223	-	1,820,223
Total Revenues	<u>1,837,970</u>	<u>-</u>	<u>1,837,970</u>
Expenditures:			
Debt Service:			
Principal	1,255,000	1,745,000	3,000,000
Interest	521,319	2,457,253	2,978,572
Total Expenditures	<u>1,776,319</u>	<u>4,202,253</u>	<u>5,978,572</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>61,651</u>	<u>(4,202,253)</u>	<u>(4,140,602)</u>
Other Financing Sources (Uses):			
Transfers In	-	4,202,253	4,202,253
Total Other Financing Sources (Uses)	<u>-</u>	<u>4,202,253</u>	<u>4,202,253</u>
Net Change in Fund Balance	61,651	-	61,651
Fund Balance, July 1	1,742,484	-	1,742,484
Fund Balance, June 30	<u>\$ 1,804,135</u>	<u>\$ -</u>	<u>\$ 1,804,135</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2009

	County School Facilities Fund	Capital Outlay Projects	Blended Component Unit	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
ASSETS:				
Cash in County Treasury	\$ 1,959,898	\$ 184,490	\$ 3,933,036	\$ 6,077,424
Cash with a Fiscal Agent/Trustee	-	-	5,423,635	5,423,635
Accounts Receivable	8,497	1,696	14,890	25,083
Total Assets	<u>\$ 1,968,395</u>	<u>\$ 186,186</u>	<u>\$ 9,371,561</u>	<u>\$ 11,526,142</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 402,017	\$ -	\$ 171,231	\$ 573,248
Total Liabilities	<u>402,017</u>	<u>-</u>	<u>171,231</u>	<u>573,248</u>
Fund Balance:				
Designated Fund Balances:				
Other Designated	1,566,378	186,186	9,200,330	10,952,894
Total Fund Balance	<u>1,566,378</u>	<u>186,186</u>	<u>9,200,330</u>	<u>10,952,894</u>
Total Liabilities and Fund Balances	<u>\$ 1,968,395</u>	<u>\$ 186,186</u>	<u>\$ 9,371,561</u>	<u>\$ 11,526,142</u>

SAN MARCOS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	County School Facilities Fund	Capital Outlay Projects	Blended Component Unit	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:				
Other State Revenue	\$ 15,600	\$ -	\$ -	\$ 15,600
Other Local Revenue	198,085	46,468	6,381,997	6,626,550
Total Revenues	<u>213,685</u>	<u>46,468</u>	<u>6,381,997</u>	<u>6,642,150</u>
Expenditures:				
Plant Services	9,404,540	343,129	1,407,311	11,154,980
Total Expenditures	<u>9,404,540</u>	<u>343,129</u>	<u>1,407,311</u>	<u>11,154,980</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,190,855)</u>	<u>(296,661)</u>	<u>4,974,686</u>	<u>(4,512,830)</u>
Other Financing Sources (Uses):				
Transfers Out	-	-	(4,202,253)	(4,202,253)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(4,202,253)</u>	<u>(4,202,253)</u>
Net Change in Fund Balance	(9,190,855)	(296,661)	772,433	(8,715,083)
Fund Balance, July 1	10,757,233	482,847	8,427,897	19,667,977
Fund Balance, June 30	<u>\$ 1,566,378</u>	<u>\$ 186,186</u>	<u>\$ 9,200,330</u>	<u>\$ 10,952,894</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

SAN MARCOS UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2009

The Board of Supervisors of San Diego County adopted a resolution on May 27, 1975, creating a new unified school district comprising the area of Rich-Mar Union School District named "San Marcos Unified School District." The District serves the San Marcos Community located in north San Diego County. The District operates eleven elementary schools, three middle schools, two comprehensive high schools, a continuation high school, an independent study high school, and an adult school.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Mrs. Sharon Jenkins	President	Four Year Term Expires December 2010
Mrs. Beckie Garrett	Vice President	Four Year Term Expires December 2010
Mr. David Horacek	Clerk	Four Year Term Expires December 2012
Mr. Jay Petrek	Member	Four Year Term Expires December 2012
Mr. Randy Walton	Member	Four Year Term Expires December 2012

Administration

Kevin Holt
Superintendent

Gary Hamels
Assistant Superintendent
Business Services

Gina Bishop
Assistant Superintendent
Instructional Services

David McAdams
Director of Accounting

SAN MARCOS UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

YEAR ENDED JUNE 30, 2009

TABLE D-1

	Revised Second Period Report	Annual Report
Elementary:		
Kindergarten	1,453.73	1,451.89
Grades 1 through 3	4,178.47	4,157.08
Grades 4 through 8	6,339.44	6,311.98
Home and Hospital	2.79	3.03
Special education	433.43	437.46
Elementary totals	12,407.86	12,361.44
High School:		
Grades 9 through 12, regular classes	4,183.83	4,144.58
Special education	167.49	164.95
Continuation education	197.26	198.15
Home and Hospital	4.75	4.33
High school totals	4,553.33	4,512.01
Classes for adults:		
Concurrently enrolled	15.41	14.35
Not concurrently enrolled	19.73	21.84
ADA totals	16,996.33	16,909.64
	Hours of Attendance	
Summer School		
Elementary	187,081	
High School	120,439	

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2009

TABLE D-2

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2008-09 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	33,630	36,000	36,420	180	-	Complied
Grade 1	48,675	50,400	55,140	180	-	Complied
Grade 2	48,675	50,400	55,140	180	-	Complied
Grade 3	48,675	50,400	55,140	180	-	Complied
Grade 4	49,560	54,000	55,140	180	-	Complied
Grade 5	49,560	54,000	55,140	180	-	Complied
Grade 6	49,560	54,000	55,140	180	-	Complied
Grade 7	49,560	54,000	56,926	180	-	Complied
Grade 8	49,560	54,000	56,926	180	-	Complied
Grade 9	59,826	64,800	64,860	180	-	Complied
Grade 10	59,826	64,800	64,860	180	-	Complied
Grade 11	59,826	64,800	64,860	180	-	Complied
Grade 12	59,826	64,800	64,860	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2009

TABLE D-3

<u>General Fund</u>	<u>(Budget)</u> <u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues and other financial sources	\$ <u>132,644,360</u>	\$ <u>136,288,653</u>	\$ <u>132,996,099</u>	\$ <u>128,685,630</u>
Expenditures, other uses and transfers out	<u>134,257,245</u>	<u>134,860,460</u>	<u>134,977,270</u>	<u>123,831,642</u>
Change in fund balance (deficit)	<u>(1,612,885)</u>	<u>1,428,193</u>	<u>(1,981,171)</u>	<u>4,853,988</u>
Ending fund balance	\$ <u>23,364,818</u>	\$ <u>24,977,703</u>	\$ <u>23,549,510</u>	\$ <u>25,530,681</u>
Available reserves	\$ <u>20,350,319</u>	\$ <u>17,420,977</u>	\$ <u>14,605,671</u>	\$ <u>16,347,629</u>
Available reserves as a percentage of total outgo	<u>15.1%</u>	<u>12.9%</u>	<u>10.8%</u>	<u>13.2%</u>
Total long-term debt	\$ <u>139,819,918</u>	\$ <u>145,719,282</u>	\$ <u>87,900,076</u>	\$ <u>90,728,728</u>
Average daily attendance at P-2	<u>17,070</u>	<u>16,961</u>	<u>16,436</u>	<u>15,901</u>

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The district's general fund balance has decreased by \$552,978 over the past two years. The fiscal year 2009-10 budget projects a decrease of \$1,612,885. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has increased by \$54,990,554 over the past two years.

Average daily attendance (ADA) has increased by 1,060 over the past two years.

SAN MARCOS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

TABLE D-4

	General Fund
June 30, 2009, annual financial and budget report fund balances	\$ <u>27,176,701</u>
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstatement (Note N)	<u>(2,198,998)</u>
June 30, 2009, audited financial statement fund balances	\$ <u><u>24,977,703</u></u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2009

TABLE D-5

The following charter schools are chartered by San Marcos Unified School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
Bayshore Prep Charter Academy	No

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

TABLE D-6

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Medi-Cal *	93.778	-	\$ 362,224
Passed Through State Department of Education:			
Child Care and Development *	93.575	03942	3,891
Total U. S. Department of Health and Human Services			<u>366,115</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Direct Programs:			
TAT Alcohol Abuse Reduction	84.184A	-	10,477
School Counseling Demonstration	84.215E	-	27,387
Total Direct Programs			<u>37,864</u>
Passed Through State Department of Education:			
Title I	84.010	03064	1,621,001
Special Education *	84.027	03379	2,874,919
Vocational Education	84.048	03550	76,714
Preschool *	84.173	03430	339,143
Title IV Drug Free	84.186	03453	44,213
Wellness Grant	84.186	04349	17,756
Title V Innovative Education	84.298	04110	1,724
Title II Technology	84.318	04045	24,933
Advanced Placement	84.330	04831	13,381
Gear Up Program	84.334	00088	116,161
Title III Immigrant Education	84.365	04201	81,869
Title III LEP	84.365	04203	364,066
Title II Teacher Quality	84.367	04341	451,602
Federal Air Space	N/A	N/A	500
Total Passed Through State Department of Education			<u>6,027,982</u>
Total U. S. Department of Education			<u>6,065,846</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
National School Lunch Program *	10.555	03396	3,625,448
Total U. S. Department of Agriculture			<u>3,625,448</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,057,409</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Marcos Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

SAN MARCOS UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

NOTE 1 - Early Retirement Incentive Program

The district has adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the district.

Retiree Information

A total of thirteen employees have retired in exchange for the additional two years of service credit.

Position Vacated	Age	Service Credit	Retired Employee		Replacement Employee (If Applicable)	
			Salary	Benefits	Salary	Benefits
Athletic Director	57.1	30.5	\$ 88,329	\$ 21,920	\$ 47,900	\$ 17,363
Assistant Principal	59.3	33.0	119,041	25,381	90,105	22,120
Director PPS	60.4	38.0	130,536	26,676	-	-
Principal	57.4	31.9	125,476	26,106	96,546	22,846
Principal	58.1	36.0	125,476	26,106	96,546	22,846
Counselor	60.3	34.0	103,358	23,613	59,640	18,686
Counselor	62.2	33.0	103,358	23,613	59,640	18,686
Teacher	60.4	30.4	87,311	21,805	47,900	17,363
Teacher	59.7	22.2	85,532	21,604	47,900	17,363
Teacher	65.1	31.9	88,329	21,920	47,900	17,363
Teacher	60.2	23.0	85,448	21,595	47,900	17,363
Teacher	59.2	14.8	81,648	21,167	47,900	17,363
Teacher	61.1	32.5	85,448	21,595	47,900	17,363
Totals			\$ 1,309,290	\$ 303,101	\$ 737,777	\$ 226,725

Additional Costs

As a result of this early retirement incentive program, the district expects to incur additional costs. The breakdown in additional costs is presented below:

Retirement costs	\$ 740,814
Postretirement health benefit costs	291,876
Total additional costs	\$ 1,032,690

Other Independent Auditor's Reports

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Board of Trustees
San Marcos Unified School District
San Marcos, California

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Marcos Unified School District as of and for the year ended June 30, 2009, which collectively comprise the San Marcos Unified School District's basic financial statements and have issued our report thereon dated October 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Marcos Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the San Marcos Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Marcos Unified School District's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the San Marcos Unified School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the San Marcos Unified School District's financial statements that is more than inconsequential will not be prevented by the San Marcos Unified School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the San Marcos Unified School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Marcos Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Radley King & Co., LLP

El Cajon, California
October 29, 2009

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133

Board of Trustees
San Marcos Unified School District
San Marcos, California

Members of the Board of Trustees:

Compliance

We have audited the compliance of San Marcos Unified School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. San Marcos Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of San Marcos Unified School District's management. Our responsibility is to express an opinion on San Marcos Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Marcos Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Marcos Unified School District's compliance with those requirements.

In our opinion, San Marcos Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of San Marcos Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered San Marcos Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Marcos Unified School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley King & Co., LLP

El Cajon, California
October 29, 2009

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Auditor's Report on State Compliance

Board of Trustees
San Marcos Unified School District
San Marcos, California

Members of the Board of Trustees:

We have audited the basic financial statements of the San Marcos Unified School District ("District") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 29, 2009. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	N/A [1]
Regional Occupational Centers and Programs	6	N/A
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	N/A
Community Day Schools	9	N/A
Morgan-Hart Class Size Reduction Program	7	N/A [1]
Instructional Materials:		
General Requirements	12	1 [3]
Grades K-8 Only	1	N/A [1]
Grades 9-12 Only	1	N/A [1]
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Yes
GANN Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	N/A [1]

Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Yes
Only One School Serving Grades K-3	4	N/A
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Contemporaneous Records of Attendance, For Charter Schools	1	N/A
Mode of Instruction, for Charter Schools	1	N/A
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	N/A
Determination of Funding for Nonclassroom-Based		
Instruction, For Charter Schools	3	N/A
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	N/A

The term "N/A" is used above to mean one or more of the following: 1) The District did not offer the program during the current fiscal year, 2) The program applies only to a different type of local education agency, or 3) The procedures in the audit guide have been revised by subsequent state legislation. The numerals enclosed in brackets which follow some items are explained as follows:

- [1] This program is not required to be audited per flexibility provisions of SBx3 4.
- [2] The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19825 procedures (e) and (g) were not performed.
- [3] The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c) and (e) were not performed.

Based on our audit, we found that, for the items tested, San Marcos Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the San Marcos Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Adley King & Co., LLP

El Cajon, California
October 29, 2009

Findings and Recommendations Section

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are
are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial
statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027	Special Education
84.367	Title II Teacher Quality

Dollar threshold used to distinguish between
type A and type B programs: \$301,722

Auditee qualified as low-risk auditee? X Yes No

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

3. State Awards

Internal control over state programs:

One or more material weaknesses identified? _____ Yes X No

One or more significant deficiencies identified that are
are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance
for state programs: Unqualified

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

Finding 2009-1 (40000)
Early Retirement Incentive

Criteria or Specific Requirement

Determine that the school district received approval from the county office of education or that the county office of education received approval from the Superintendent of Public Instruction for the certification of the CalSTRS Early Retirement Incentive program.

Condition

In our review of the certification of employer participation for the CalSTRS Early Retirement Incentive Program, the school district had not obtained the proper approval from the county office of education or Superintendent of Public Instruction. Upon further examination, the CalSTRS Service Retirement unit did not accept the certification due to specifics disclosed in the board resolution and changes to the window period; however, the district is currently appealing this decision as of the audit date. Also, it should be noted that the payment warrant submitted to CalSTRS for the full balance payable on the retirement incentive was subsequently cashed and accepted by CalSTRS even though the certification currently still has not been accepted.

Questioned Costs

None

Recommendation

Obtain the proper approval from the county office of education or Superintendent of Public Instruction for the certification of the CalSTRS Early Retirement Incentive program. Communicate with the CalSTRS Service Retirement Unit and resolve the issues that are preventing approval of the early retirement incentive. Continue the appeal process until all specifics have been rectified and the proper approval has been obtained.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

LEA's Response

The Assistant Superintendent of Human Resources is in communication with the CalSTRS service requirement unit administration. The appeals process is underway. CalSTRS has accepted our participation in the program several times before using the same criteria used for the 2008-09 retirement incentive. Staff expects a positive outcome.

Finding 2009-2(40000)

After School Education and Safety Program - Before School Component

Criteria or Specific Requirement

Determine that the local education agency operating the After School Education and Safety Program is compliant with the state components for the before school program.

Condition

In review of parent notices, policy sheets, and other relevant program documentation for the before school program offered for Leichtag Elementary School, a proper late arrival policy was not established and a late arrival form was not utilized for pupils that did not attend the entire program. We selected fifteen pupils from the month tested and noted there were no sign-in times for any pupils for the month tested; therefore, we could not determine the length of time each pupil was in the program. Also, pupil service days appeared to be counted manually and did not reconcile to the total days claimed for the month tested. As a result, all 337 days claimed for the pupils tested are not valid as we could not determine the length of time, if any, that the pupils were in the program and manual counts could not be reconciled to the actual number of pupil days claimed.

Questioned Costs

Leichtag Elementary School - a total of 337 days are questioned for the pupils tested.

Recommendation

At Leichtag Elementary School, establish a late arrival form to be completed, signed, and kept on file for pupils that do not attend for the entire program time offered. Establish a procedure to ensure that a sign-in time and signature is present for each pupil upon daily arrival in order to justify the pupil's attendance is at least half time of the daily program hours. Monitor all pupil days counted to ensure proper sign-in times and signatures are evident in order to validate their days of attendance and participation in the program.

LEA's Response

All district sites offering the before school component have been trained on the proper documentation for student participation. These include both policy statements and use of a late arrival form to document parent guardian consent. These forms will be maintained in the participants file.

The sites have also received hardware, software, and training for the City Span attendance system which is based on student bar coded cards which will record late arrival and departure dates and times. These records will form the basis for accurate attendance records.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Finding 2009-3(40000)

After School Education and Safety Program - After School Component

Criteria or Specific Requirement

Determine that the local education agency operating the After School Education and Safety Program is compliant with the state components for the after school program.

Condition

In review of parent notices, policy sheets, and other relevant program documentation for the after school program offered for Woodland Park Middle School, a proper early release policy was not established and an early release form was not utilized for pupils that did not attend for the entire program. We selected fifteen pupils from the month tested and noted that the pupils left the program early a significant number of days; however, there was no early release form retained or kept on file to justify the early time released. As a result, 277 days out of 308 days tested are not valid to be claimed as the pupils did not complete the full day of participation in the program and had no early release form on file.

In review of parent notices, policy sheets, and other relevant program documentation for the after school program offered for Alvin Dunn Elementary School, a proper early release policy was not established and an early release form was not utilized for pupils that did not attend for the entire program. We selected fifteen pupils from the month tested and noted that the pupils left the program early a significant number of days; however, there was no early release form retained or kept on file to justify the early time released. In addition, only half of the pupils were being signed out of the program and there were no times listed for any of the pupils that left the program. As a result, all 291 days claimed for the fifteen pupils tested are not valid as we could not determine the length of time, if any, that the pupils were in the program.

Questioned Costs

Woodland Park Middle School - a total of 277 days are questioned for the pupils tested. Alvin Dunn Elementary School - a total of 291 days are questioned for the pupils tested.

Recommendation

At Woodland Park Middle School, establish an early release form to be completed, signed, and kept on file for pupils that do not attend for the entire program time offered. Ensure pupils that leave the program early have met the specific requirements as established within the early release form. Implement procedures to monitor and ensure that all pupil days counted have proper daily sign-out times and signatures in order to validate their participation in the program.

At Alvin Dunn Elementary School, establish an early release form to be completed, signed, and kept on file for pupils that do not attend for the entire program time offered. Ensure pupils that leave the program early have met the specific requirements as established within the early release form. Require all pupils that leave the program on a daily basis to have an actual sign-out time and certified release signature recorded in order to justify the actual time each pupil left the program. Implement procedures to monitor and ensure that all pupil days counted have proper daily sign-out times and signatures in order to validate their participation in the program.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

LEA's Response

All district sites offering the after school component have been trained on the proper documentation for student participation. These include both policy statements and use of an early release form to document parent guardian consent. These forms will be maintained in the participants file.

The sites have also received hardware, software, and training for the City Span attendance system which is based on student bar coded cards which will record late arrival and departure dates and times. These records will form the basis for accurate attendance records.

SAN MARCOS UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Finding 2008-1 Closing Procedures</p> <p>In the search for unrecorded liabilities a significant invoice had not been accrued in the County School Facilities Fund; therefore, an audit adjustment was required to recognize the obligation. The district did not identify all significant liabilities at year end as cut-off procedures were not adequately reviewed.</p> <p>Establish a process to identify and ensure that all significant accounts payable have been accrued at year end. Monitor the cut-off process of invoices and purchase orders in order to assure all significant liabilities have been posted to the proper period.</p>	Implemented	